

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Durand	County Macomb
Fiscal Year End June 30, 2006	Opinion Date October 26, 2006	Date Audit Report Submitted to State December 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

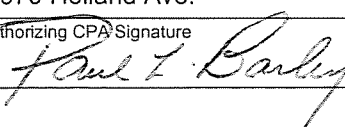
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple		Telephone Number 810-984-3829	
Street Address 1979 Holland Ave.		City Port Huron	State MI
Zip 48060			
Authorizing CPA Signature 	Printed Name Paul L. Bailey	License Number 1101014088	

**CITY OF DURAND, MICHIGAN**

**ANNUAL FINANCIAL STATEMENTS**  
**with Supplementary Information**

**FOR THE YEAR ENDED**  
**JUNE 30, 2006**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



# CITY OF DURAND, MICHIGAN

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# CITY OF DURAND, MICHIGAN

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Durand, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the remaining fund information of the City of Durand, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Durand's management. Our responsibility is to express opinions on these financial statements based on our audit.

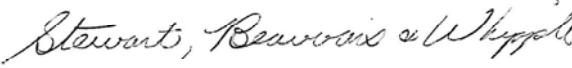
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Durand, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2006, on our consideration of the City of Durand's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, and budgetary comparisons on pages 40 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Durand's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

October 26, 2006

### OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Durand's 2006 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

#### *Government-wide Financial Statements*

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the City's net assets and how they have changed. Net assets, defined as the difference between the City's assets and liabilities, are one way to measure the City's financial health or position.

The government-wide financial statements of the City are divided into two categories:

**Governmental activities** – most of the City's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, charges for services, and most of the funding.

**Business-type activities** – the City charges fees to customers to help it cover the costs of certain services it provides. The City's water, sewer and refuse operations are treated as business-type activities.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the City's most significant funds; not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

**Governmental funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City currently has 14 governmental funds.

**Proprietary Funds** – Proprietary funds use the accrual basis of accounting, which is the same basis used by the private businesses. The City maintains two different types of proprietary funds.

**Enterprise Funds** – are used to report services for which the City charges customers a fee for those services. The City has three enterprise funds, the Water, Sewer and Refuse Funds.

**Internal Service Funds** – reports activities that provide services and supplies to other City programs. The City utilizes a Motor Pool internal service fund.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's operations. The City has two fiduciary funds, the Employee Benefits Trust Fund and the Tax Agency Fund.

## FINANCIAL OVERVIEW (Government-wide financial analysis)

The City has combined total net assets of 10.1 million. This is an increase of \$337,203 over 2005. Government-type activities comprise \$3.1 million, and business-type activities make up \$7.0 million of the total net assets. In a condensed format, the table below shows net asset as of the June 30, 2006 and 2005.

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
<b>In Thousands</b>				
<b>Assets</b>				
Current assets	\$ 1,166	\$ 1,287	\$ 955	\$ 386
Restricted assets	25	28	179	283
Capital assets	<u>5,303</u>	<u>5,239</u>	<u>7,447</u>	<u>7,754</u>
Total assets	<u>\$ 6,494</u>	<u>\$ 6,554</u>	<u>\$ 8,581</u>	<u>\$ 8,423</u>
<b>Liabilities</b>				
Current liabilities	162	219	78	77
Long-term liabilities	<u>3,233</u>	<u>3,410</u>	<u>1,500</u>	<u>1,619</u>
Total liabilities	<u>\$ 3,395</u>	<u>\$ 3,629</u>	<u>\$ 1,578</u>	<u>\$ 1,696</u>
<b>Net Assets</b>				
Invested in capital assets –				
Net of related debt	2,073	1,832	5,952	6,386
Restricted	565	183	194	181
Unrestricted	<u>461</u>	<u>910</u>	<u>857</u>	<u>160</u>
Total net assets	<u>\$ 3,099</u>	<u>\$ 2,925</u>	<u>\$ 7,003</u>	<u>\$ 6,727</u>

The City's governmental activities experienced a net change in assets of \$173,609. The business-type activities experienced an increase in net assets of \$163,594, which is approximately 12% of annual expenses.



The following table shows the changes in net assets for 2006 and 2005:

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
<b>In Thousands</b>				
<b>Revenue</b>				
Program Revenue				
Charges for services	\$ 101	\$ 114	\$ 1,599	\$ 1,342
Operating grants and contributions	256	278	-	-
Capital grants and contributions	14	29	-	-
General Revenue				
Property taxes	1,352	1,313	-	-
State-shared revenue	523	529	-	-
Unrestricted investment earnings	44	27	21	5
Franchise fees	29	29	-	-
Total Revenue	<u>\$ 2,319</u>	<u>\$ 2,319</u>	<u>\$ 1,620</u>	<u>\$ 1,347</u>
<b>Program Expenses</b>				
General government	478	539	-	-
Public safety	827	736	-	-
Public works	575	598	-	-
Recreation and culture	164	147	-	-
Interest on long-term debt	101	145	-	-
Water	-	-	536	517
Sewer	-	-	684	725
Refuse	-	-	188	193
Loss on disposal	-	-	48	-
Total Program Expenses	<u>2,145</u>	<u>2,165</u>	<u>1,456</u>	<u>1,435</u>
<b>Changes in Net Assets</b>	<u>\$ 174</u>	<u>\$ 154</u>	<u>\$ 164</u>	<u>\$ ( 88)</u>

#### ***Governmental Activities***

Revenues for governmental activities totaled \$2.3 million in 2006. Of this amount \$1.4 million or 58% was received from taxes followed by state Shared Revenue of 0.5 million or 23%.

#### ***Business-type Activities***

The City has three business-type activities, water, wastewater and refuse operations. The City operates its own water and sewage treatment facility and contracts for refuse collections. The water, wastewater and refuse services funds had a net increase (decrease) in net assets of \$(813), \$155,801 and \$8,606, respectively.

## FINANCIAL ANALYSIS OF MAJOR FUNDS

The general fund ended 2006 with a fund balance of \$487,021, of which \$63,312 was reserved for specific purposes, \$100,000 designated for retiree health insurance, with the remaining amount of \$323,709 unreserved and undesignated. This is a decrease of \$116,727 from the prior year. The original General Fund budget estimated expenses over revenues of \$61,600 and the amended budget, exclusive of the purchase of the real estate, a decrease of \$61,950 for the fiscal year end June 30, 2006. These shortfalls were to be covered by accumulated fund balances from prior years to avoid cutting services to the community.

The City's other major funds, the Major Street and Local Street Funds ended 2006 with a fund balance of \$87,124 and \$42,672, respectively. This is an increase of \$71,830 for the Major Street Fund and an increase of \$29,943 for the Local Street Fund.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. The only significant budget amendment was in the General Fund for General Administration for \$43,000, which relates to the purchase of land.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The City had \$12.8 million dollars invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2006. The investment in capital assets includes, land, building and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g. roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the City added approximately \$335,621 of capital assets before taking into account depreciation. Depreciation for the year was \$529,065. The following table shows the capital assets at June 30, 2006 and 2005:

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Land	\$ 1,597,052	\$ 1,495,195	\$ 151,400	\$ 151,400
Building and improvements	3,290,837	3,290,837	3,784,514	3,784,514
Machinery and equipment	1,064,087	856,792	68,155	93,641
Vehicles	933,934	1,156,183	-	-
Infrastructure	604,463	598,446	-	-
Water and sewer systems	-	-	8,720,732	8,842,258
Construction in progress	<u>74,569</u>	<u>26,325</u>	<u>13,426</u>	<u>13,426</u>
	7,564,942	7,423,778	12,738,227	12,885,239
Accumulated depreciation	( <u>2,261,514</u> )	( <u>2,184,668</u> )	( <u>5,291,121</u> )	( <u>5,131,283</u> )
	<u>\$ 5,303,428</u>	<u>\$ 5,239,110</u>	<u>\$ 7,447,106</u>	<u>\$ 7,753,956</u>

During the year, the City added \$312,818 of assets to the governmental activities, which included the start of the resurfacing of Main Street, purchase of real estate, computer equipment and software, and fire safety equipment. The business-type activities added \$22,803 mainly as improvements to the wastewater and water supply systems.

## Long-term Debt

At June 30, 2006, the City had \$4,776,295 in long-term debt compared to \$5,068,939 at June 30, 2005.

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
General Obligation Bonds	\$ 2,550,000	\$ 2,665,000	\$ 350,000	\$ 400,000
Revenue Bonds	-	-	1,145,000	1,210,000
Installment Loans	680,133	742,038	-	-
Compensated Absences	<u>3,028</u>	<u>2,939</u>	<u>5,268</u>	<u>9,164</u>
	<u>\$ 3,233,161</u>	<u>\$ 3,409,977</u>	<u>\$ 1,500,268</u>	<u>\$ 1,619,164</u>

In addition the City funds compensated absences earned in governmental funds in the Employee Benefit Fund, the long-term liability amounted to \$42,866.

## ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The economy in the State of Michigan continued to struggle throughout the fiscal year 2005-06. This continues to have an adverse impact on the City of Durand, mostly through a significant reduction in the amount of state revenue sharing. The state continued to freeze the revenue sharing and increase the amount of constitutional revenue sharing as provided by the state constitution and lowering the amount of statutory revenue sharing controlled by the legislature. Again, the City received approximately \$120,000 less in total state revenue sharing than it did in 1999.

While experiencing small growth in revenue, most expenditures continued to grow at the rate of inflation or higher. The City will continue to look for reductions to the increases in healthcare costs and in discretionary spending. For a foreseeable future the trend of lost revenue sharing is expected to continue.

During this last year the City made a significant capital improvements to the downtown district. The improvements included a new water main and streetscape on Main Street. During the next year the City will complete the streetscape in the downtown area on North Saginaw Street. These two projects are being financed through several grants received the City.

For the Main Street improvements the City received approximately \$800,000 in grants. The City has already secured \$325,000 in grants for North Saginaw Street and we will be seeking more funds to use for the streetscape portion of the project. When completed, the downtown area will be even more of a commercial center for the community.

The City is working on several other projects that may bring development to the community and expand the City's tax base. The City recently purchased several properties in the downtown area and we are working with prospective developers and companies to bring more employment to the community.

The City continues to work with developers and the Shiawassee Economic Development Partnership to bring more development and jobs to the area. This past year a new lumberyard opened and a hotel (soon to open) were built in the Lansing Road corridor. The city expects other developments to come into this area in the next for years.

## CONTACTING THE CITY'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, we invite you to contact the City of Durand administration at City Hall (989) 288-3113.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF DURAND, MICHIGAN

## STATEMENT OF NET ASSETS JUNE 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	DDA
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 738,709	\$ 556,705	\$ 1,295,414	\$ 134,116
Investments	104,123	-	104,123	-
Receivables	264,494	351,099	615,593	859
Prepaid expenses	51,150	14,362	65,512	-
Inventory	7,889	32,904	40,793	-
Restricted Assets -				
Cash and cash equivalents	25,060	12,806	37,866	-
Investments	-	165,994	165,994	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	1,671,621	164,826	1,836,447	-
Assets being depreciated	3,631,807	7,282,280	10,914,087	166,640
Total Assets	<u>6,494,853</u>	<u>8,580,976</u>	<u>15,075,829</u>	<u>301,615</u>
<b>LIABILITIES:</b>				
Payables and accrued liabilities	143,712	68,419	212,131	3,071
Accrued interest	18,507	-	18,507	679
Due to other governmental units	-	-	-	24,335
Deposits	-	9,315	9,315	-
Non-current liabilities				
Due within one year	187,971	120,000	307,971	25,000
Due in more than one year	3,045,190	1,380,268	4,425,458	50,000
Total Liabilities	<u>3,395,380</u>	<u>1,578,002</u>	<u>4,973,382</u>	<u>103,085</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net of related liabilities	2,073,295	5,952,106	8,025,401	91,640
Restricted				
Acquisition/construction of capital assets	8,677	-	8,677	-
Debt service	120,105	178,800	298,905	-
Well head protection	-	15,000	15,000	-
Streets and sidewalks	242,206	-	242,206	-
Other	25,803	-	25,803	33,020
Unrestricted	<u>629,387</u>	<u>857,068</u>	<u>1,486,455</u>	<u>73,870</u>
Total Net Assets	<u>\$ 3,099,473</u>	<u>\$ 7,002,974</u>	<u>\$ 10,102,447</u>	<u>\$ 198,530</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
General Government	\$ 478,343	\$ 46,739	\$ -	\$ -
Public Safety	827,293	42,953	5,239	-
Public Works	574,708	-	250,710	14,204
Recreation and Culture	163,793	11,049	-	40
Interest on Long Term Debt	100,787	-	-	-
Total governmental activities	<u>2,144,924</u>	<u>100,741</u>	<u>255,949</u>	<u>14,244</u>
Business type activities:				
Water Supply System	536,094	574,683	-	-
Wastewater	683,414	828,259	-	-
Refuse Services	188,300	195,690	-	-
Total business type activities	<u>1,407,808</u>	<u>1,598,632</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u><u>3,552,732</u></u>	<u><u>1,699,373</u></u>	<u><u>255,949</u></u>	<u><u>14,244</u></u>
<b>Component Unit</b>				
Downtown Development Authority	<u>24,307</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Component Units	<u><u>24,307</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

### General revenues:

#### Taxes

Property taxes levied for general purposes

Property taxes levied for streets

Property taxes levied for debt purposes

Grants and contribution not  
restricted to specific programs

Sales taxes

Franchise fees

Other

Unrestricted investment income

Loss on disposal of fixed assets

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Prior period adjustments

Net assets at beginning of year as restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government			Component Unit DDA
Governmental Activities	Business Type Activities	Total	
\$( 431,604)	\$ -	\$( 431,604)	\$ -
( 779,101)	-	( 779,101)	-
( 309,794)	-	( 309,794)	-
( 152,704)	-	( 152,704)	-
( 100,787)	-	( 100,787)	-
<u>( 1,773,990)</u>	<u>-</u>	<u>( 1,773,990)</u>	<u>-</u>
-	38,589	38,589	-
-	144,845	144,845	-
-	7,390	7,390	-
<u>-</u>	<u>190,824</u>	<u>190,824</u>	<u>-</u>
<u>( 1,773,990)</u>	<u>190,824</u>	<u>( 1,583,166)</u>	<u>-</u>
-	-	-	( 24,307)
-	-	-	( 24,307)
1,065,699	-	1,065,699	-
67,230	-	67,230	-
218,496	-	218,496	58,875
523,028	-	523,028	-
28,710	-	28,710	-
-	-	-	5,525
44,436	20,778	65,214	3,337
-	( 48,008)	( 48,008)	-
<u>1,947,599</u>	<u>( 27,230)</u>	<u>1,920,369</u>	<u>67,737</u>
<u>173,609</u>	<u>163,594</u>	<u>337,203</u>	<u>43,430</u>
2,925,864	6,726,865	9,652,729	155,100
-	112,515	112,515	-
<u>2,925,864</u>	<u>6,839,380</u>	<u>9,765,244</u>	<u>155,100</u>
<u>\$ 3,099,473</u>	<u>\$ 7,002,974</u>	<u>\$ 10,102,447</u>	<u>\$ 198,530</u>

# CITY OF DURAND, MICHIGAN

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 342,464	\$ 49,779	\$ 36,569	\$ 162,709	\$ 591,521
Investments	1,200	-	-	102,923	104,123
Receivables -					
Interest and accounts	17,511	-	-	803	18,314
Special assessments	-	-	-	15,601	15,601
Prepayments and deposits	37,929	-	-	-	37,929
Due from other governmental units -					
Federal/State	167,967	28,530	11,062	21,300	228,859
Local	1,720	-	-	-	1,720
Due from other funds	125	7,230	-	23,294	30,649
Inventories	323	3,000	3,214	-	6,537
Restricted Assets -					
Cash and cash equivalents	25,060	-	-	-	25,060
<b>Total Assets</b>	<u><u>\$ 594,299</u></u>	<u><u>\$ 88,539</u></u>	<u><u>\$ 50,845</u></u>	<u><u>\$ 326,630</u></u>	<u><u>\$ 1,060,313</u></u>
<b>Liabilities:</b>					
Accounts payable	\$ 91,775	\$ 1,331	\$ 47	\$ 26,880	\$ 120,033
Accrued liabilities	15,153	84	896	-	16,133
Due to other funds	350	-	7,230	23,069	30,649
Deferred revenue	-	-	-	34,746	34,746
<b>Total Liabilities</b>	<u>107,278</u>	<u>1,415</u>	<u>8,173</u>	<u>84,695</u>	<u>201,561</u>
<b>Fund Balances:</b>					
Reserved -	63,312	3,000	3,214	128,782	198,308
Unreserved -					
Designated -	100,000	-	-	-	100,000
Undesignated -					
General Fund	323,709	-	-	-	323,709
Special Revenue Funds	-	84,124	39,458	113,153	236,735
Total Equity	<u>487,021</u>	<u>87,124</u>	<u>42,672</u>	<u>241,935</u>	<u>858,752</u>
<b>Total Liabilities and Fund Equity</b>	<u><u>\$ 594,299</u></u>	<u><u>\$ 88,539</u></u>	<u><u>\$ 50,845</u></u>	<u><u>\$ 326,630</u></u>	<u><u>\$ 1,060,313</u></u>

The accompanying notes are an integral part of these financial statements.



# CITY OF DURAND, MICHIGAN

## RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2006

Fund Balances - total governmental funds	\$	858,752
--	----	---------

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Capital assets		5,695,594
Accumulated depreciation	(	1,111,281)

Other long term assets are not available to pay for current period  
expenditures and, therefore, are deferred in the funds.

Special Assessments		34,746
---------------------	--	--------

Internal Service Fund used by management to charge cost of  
the City's equipment revolving activities. The assets and liabilities of the  
internal service funds are included in governmental activities in the  
statement of net assets.

		644,057
--	--	---------

Long - term liabilities, including bonds payable, are not due and payable  
in the current period and therefore are not reported in the funds.

Bonds/notes payable	(	3,003,888)	
Accrued interest	(	18,507)	( 3,022,395)

Net Assets of governmental activities

\$	3,099,473
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The notes to the financial statements are an integral part of this statement.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General	Major Street	Local Street	Other Governmental Fund	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 1,103,019	\$ -	\$ -	\$ 285,726	\$ 1,388,745
Licenses and permits	28,710	-	-	13,824	42,534
Intergovernmental -					
Federal/State	528,267	172,787	77,923	-	778,977
Charges for services	21,435	-	-	-	21,435
Fines and forfeits	24,751	-	-	-	24,751
Interest and rent	34,293	553	570	9,020	44,436
Special assessment	-	-	-	18,159	18,159
Other	1,961	-	-	1,490	3,451
Total Revenues	<u>1,742,436</u>	<u>173,340</u>	<u>78,493</u>	<u>328,219</u>	<u>2,322,488</u>
<b>Expenditures:</b>					
Current -					
General Government	560,781	-	-	-	560,781
Public Safety	736,388	-	-	23,110	759,498
Public Works	410,676	83,510	66,550	36,776	597,512
Recreation and Cultural	104,096	-	-	6,122	110,218
Debt Service					
Principal	-	-	-	115,000	115,000
Interest	-	-	-	123,735	123,735
Total Expenditures	<u>1,811,941</u>	<u>83,510</u>	<u>66,550</u>	<u>304,743</u>	<u>2,266,744</u>
Excess of revenues over (under) expenditures	<u>( 69,505)</u>	<u>89,830</u>	<u>11,943</u>	<u>23,476</u>	<u>55,744</u>
<b>Other Financing Sources (Uses):</b>					
Transfers from other funds	-	-	18,000	70,291	88,291
Transfers to other funds	( 47,222)	( 18,000)	-	( 23,069)	( 88,291)
Total Other Financing Sources (Uses)	<u>( 47,222)</u>	<u>( 18,000)</u>	<u>18,000</u>	<u>47,222</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>( 116,727)</u>	<u>71,830</u>	<u>29,943</u>	<u>70,698</u>	<u>55,744</u>
Fund Balances at beginning of year	<u>603,748</u>	<u>15,294</u>	<u>12,729</u>	<u>171,237</u>	<u>803,008</u>
Fund Balances at end of year	<u>\$ 487,021</u>	<u>\$ 87,124</u>	<u>\$ 42,672</u>	<u>\$ 241,935</u>	<u>\$ 858,752</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES JUNE 30, 2006

Net change in fund balances - total governmental funds		\$	55,744
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay			156,118
Depreciation expense		(	114,493)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Special assessments		(	3,955)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	139,442		
Increase in accrued interest	( 1,494)		137,948
Internal service funds used by management to charge costs of the City's equipment revolving activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.			
		(	57,753)
Change in net assets of governmental activities		\$	173,609

The notes to the financial statements are an integral part of this statement.

**CITY OF DURAND, MICHIGAN**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
<b>ASSETS:</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 257,399	\$ 254,654	\$ 44,652	\$ 556,705	\$ 147,188
Accounts and interest receivable	130,673	212,117	8,309	351,099	-
Inventories	32,799	105	-	32,904	1,352
Prepaid expenses	5,683	8,679	-	14,362	13,221
<b>Restricted Assets:</b>					
Cash and cash equivalents	-	12,806	-	12,806	-
Investments	-	165,994	-	165,994	-
Total Current Assets	<u>426,554</u>	<u>654,355</u>	<u>52,961</u>	<u>1,133,870</u>	<u>161,761</u>
<b>Property, Plant and Equipment:</b>					
Property, plant and equipment	4,905,495	7,832,732	-	12,738,227	1,869,349
Less - accumulated depreciation	( 1,679,527)	( 3,611,594)	-	( 5,291,121)	( 1,150,234)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>3,225,968</u>	<u>4,221,138</u>	<u>-</u>	<u>7,447,106</u>	<u>719,115</u>
Total Assets	<u><u>3,652,522</u></u>	<u><u>4,875,493</u></u>	<u><u>52,961</u></u>	<u><u>8,580,976</u></u>	<u><u>880,876</u></u>
<b>LIABILITIES:</b>					
<b>Current Liabilities:</b>					
Accounts payable	3,606	48,679	12,828	65,113	6,713
Accrued expenses	1,902	1,404	-	3,306	833
Bonds/Notes payable (current portion)	27,500	92,500	-	120,000	37,481
Customer deposits	9,315	-	-	9,315	-
Total Current Liabilities	<u>42,323</u>	<u>142,583</u>	<u>12,828</u>	<u>197,734</u>	<u>45,027</u>
<b>Long-Term Liabilities (net of current portions):</b>					
Accrued vacation and sick	2,069	3,199	-	5,268	3,028
Notes payable (net of current portion)	147,500	1,227,500	-	1,375,000	188,764
Total Long-Term Liabilities	<u>149,569</u>	<u>1,230,699</u>	<u>-</u>	<u>1,380,268</u>	<u>191,792</u>
Total Liabilities	<u><u>191,892</u></u>	<u><u>1,373,282</u></u>	<u><u>12,828</u></u>	<u><u>1,578,002</u></u>	<u><u>236,819</u></u>
<b>NET ASSETS:</b>					
Investment in capital assets, net of related liabilities	3,050,968	2,901,138	-	5,952,106	492,870
Restricted -					
Debt service	-	178,800	-	178,800	-
Well head protection	15,000	-	-	15,000	-
Unrestricted -					
Undesignated	<u>394,662</u>	<u>422,273</u>	<u>40,133</u>	<u>857,068</u>	<u>151,187</u>
Total Net Assets	<u><u>\$ 3,460,630</u></u>	<u><u>\$ 3,502,211</u></u>	<u><u>\$ 40,133</u></u>	<u><u>\$ 7,002,974</u></u>	<u><u>\$ 644,057</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
<b>Operating Revenues:</b>					
Charges for services	\$ 499,137	\$ 789,948	\$ 189,464	\$ 1,478,549	\$ 296,809
Hydrant Rental	10,000	-	-	10,000	-
Other	65,546	38,311	6,226	110,083	541
Total Operating Revenues	<u>574,683</u>	<u>828,259</u>	<u>195,690</u>	<u>1,598,632</u>	<u>297,350</u>
<b>Operating Expenses:</b>					
Personal services	130,142	175,610	-	305,752	59,072
Administrative expenses	95,000	95,000	32,500	222,500	39,000
Supplies and postage	19,817	25,662	1,791	47,270	1,827
Other services	170,821	149,707	154,009	474,537	127,504
Depreciation	114,801	166,844	-	281,645	132,927
Total Operating Expenses	<u>530,581</u>	<u>612,823</u>	<u>188,300</u>	<u>1,331,704</u>	<u>360,330</u>
Operating Income (Loss)	<u>44,102</u>	<u>215,436</u>	<u>7,390</u>	<u>266,928</u>	<u>( 62,980)</u>
<b>Non-Operating Revenues (Expenses):</b>					
Gain (loss) on sale disposal of assets	( 45,443)	( 2,565)	-	( 48,008)	3,896
Interest earned	6,041	13,521	1,216	20,778	11,969
Interest expenses	( 5,513)	( 70,591)	-	( 76,104)	( 10,638)
Total Non-Operating Revenues	<u>( 44,915)</u>	<u>( 59,635)</u>	<u>1,216</u>	<u>( 103,334)</u>	<u>5,227</u>
Net Income (Loss)	<u>( 813)</u>	<u>155,801</u>	<u>8,606</u>	<u>163,594</u>	<u>( 57,753)</u>
Net Assets at beginning of year	3,421,443	3,286,410	19,012	6,726,865	701,810
Prior period adjustments	<u>40,000</u>	<u>60,000</u>	<u>12,515</u>	<u>112,515</u>	<u>-</u>
Net Assets at beginning of year as restated	<u>3,461,443</u>	<u>3,346,410</u>	<u>31,527</u>	<u>6,839,380</u>	<u>701,810</u>
Net Assets at end of year	<u>\$ 3,460,630</u>	<u>\$ 3,502,211</u>	<u>\$ 40,133</u>	<u>\$ 7,002,974</u>	<u>\$ 644,057</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF DURAND, MICHIGAN**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2006**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
<b>Cash Flows From Operating Activities:</b>					
Cash receipts from customers	\$ 588,221	\$ 853,722	\$ 193,878	\$ 1,635,821	\$ -
Cash receipts from interfund services	-	-	-	-	297,350
Cash payments to suppliers	( 189,048)	( 171,945)	( 142,972)	( 503,965)	( 125,002)
Cash payments to employees	( 227,209)	( 273,652)	( 32,500)	( 533,361)	( 97,958)
Net Cash Provided by Operating Activities	<u>171,964</u>	<u>408,125</u>	<u>18,406</u>	<u>598,495</u>	<u>74,390</u>
<b>Cash Flows From Noncapital Financing Activities:</b>					
Due (from)/to other funds	( 2,752)	( 18,365)	-	( 21,117)	15,612
Operating transfers from (to) other funds	-	( 74,481)	-	( 74,481)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>( 2,752)</u>	<u>( 92,846)</u>	<u>-</u>	<u>( 95,598)</u>	<u>15,612</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Bond/Note payments	( 25,000)	( 90,000)	-	( 115,000)	( 37,463)
Interest Paid on long term debt	( 5,513)	( 70,591)	-	( 76,104)	( 10,638)
Sale of fixed assets	-	-	-	-	4,976
Acquisition and construction of capital assets	( 5,072)	( 17,731)	-	( 22,803)	( 156,700)
Net Cash Used by Capital and Related Financing Activities	<u>( 35,585)</u>	<u>( 178,322)</u>	<u>-</u>	<u>( 213,907)</u>	<u>( 199,825)</u>
<b>Cash Flows From Investing Activities:</b>					
Purchase of investments	-	( 32,738)	-	( 32,738)	-
Interest earned	6,041	13,521	1,216	20,778	11,969
Net Cash (Used) Provided by Investing Activities	<u>6,041</u>	<u>( 19,217)</u>	<u>1,216</u>	<u>( 11,960)</u>	<u>11,969</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	139,668	117,740	19,622	277,030	( 97,854)
Cash and Cash Equivalents at Beginning of Year	<u>117,731</u>	<u>149,720</u>	<u>25,030</u>	<u>292,481</u>	<u>245,042</u>
Cash and Cash Equivalents at End of Year	<u>\$ 257,399</u>	<u>\$ 267,460</u>	<u>\$ 44,652</u>	<u>\$ 569,511</u>	<u>\$ 147,188</u>
<b>Reconciliation of Net Income (Loss) to:</b>					
Net Cash Provided (Used) by Operating Activities:					
Operating income (loss) for the year	\$ 44,102	\$ 215,436	\$ 7,390	\$ 266,928	\$( 62,980)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -					
Depreciation	114,801	166,844	-	281,645	132,927
Prior period adjustments	40,000	60,000	12,515	112,515	-
Change in assets and liabilities:					
Receivable	( 25,762)	( 34,537)	( 1,812)	( 62,111)	-
Prepaid and deposits	28,498	461	-	28,959	( 18)
Inventory	( 27,244)	157	-	( 27,087)	( 91)
Accounts payable/accrued expenses	( 2,431)	( 236)	313	( 2,354)	4,552
Net Cash Provided By Operating Activities	<u>\$ 171,964</u>	<u>\$ 408,125</u>	<u>\$ 18,406</u>	<u>\$ 598,495</u>	<u>\$ 74,390</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS JUNE 30, 2006

	Other Employee Benefit Trust Fund	Tax Agency Fund
	<u>                    </u>	<u>                    </u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 29,254	\$ 70,179
Accounts receivable	5,275	-
Prepaid insurance	<u>29,736</u>	<u>-</u>
Total Assets	<u><u>\$ 64,265</u></u>	<u><u>\$ 70,179</u></u>
<b>LIABILITIES:</b>		
Accounts payable	\$ 11,229	\$ -
Accrued liabilities	1,031	-
Due to other governmental units	-	69,248
Undistributed taxes	-	931
Accrued vacation and sick	<u>42,866</u>	<u>-</u>
Total Liabilities	<u><u>\$ 55,126</u></u>	<u><u>\$ 70,179</u></u>
<b>NET ASSETS:</b>	<u><u>\$ 9,139</u></u>	

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED JUNE 30, 2006

<b>Additions:</b>	
Contributions	<u>\$ 471,835</u>
<b>Deductions:</b>	
Life and disability	11,942
Workman's compensation	36,205
Retirement	85,177
Hospitalization, Eye and dental	<u>329,372</u>
Total Deductions	<u><u>462,696</u></u>
Net Change	9,139
Net assets held in trust for pension benefits	
Beginning of year	<u>-</u>
End of year	<u><u>\$ 9,139</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity –**

The City of Durand, Michigan, was incorporated March 14, 1932, under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governments' operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate for the City.

**DISCRETELY PRESENTED COMPONENT UNIT –**

**CITY OF DURAND DOWNTOWN DEVELOPMENT AUTHORITY (DDA)** – The Downtown Development Authority (DDA) was established in 1991. The DDA is organized under P.A. 197, of 1975. The purpose of the DDA is to revitalize and prevent deterioration of the central business district, to encourage historic preservation, authorize the acquisition and disposal of interests in real and personal property, seek out and attract new business interest, authorize the creation and implementation of redevelopment plans in the district, promote economic growth of the district and implement programs to eliminate the further decline of properties and their values in the district.

The City of Durand Downtown Development Authority (DDA) is reported discretely to emphasize that it is legally separate from the City. The DDA Board is comprised of up to thirteen members and one ex-officio member appointed by the Mayor with City Council's approval. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Durand City Council.

**RELATED ORGANIZATIONS** - The Durand Union Station, Inc. (a non-profit 501(c)(3) corporation) was organized for the development and operation of the Durand Union Station, Inc. Although the building is owned by the City, the financial statements of the Durand Union Station, Inc. are not included in the City's financial statements since the City Council does not appoint board members and the City is not fiscally responsible for the operation.



**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**B. Government-wide and fund financial statements –**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting and financial statement presentation –**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and payable at that time, are recognized as revenue in the year due. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** – is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Street Fund** – is a special revenue fund used to account for Act 51 money and other related revenues restricted for major streets maintenance and improvements.

**Local Street Fund** – is a special revenue fund used to account for Act 51 money and other related revenues restricted for local streets maintenance and improvements.

The City reports the following major proprietary funds:

**Water Supply System Fund** – is used to account for the treatment and distribution of water to residential and commercial users.

**Wastewater Fund** – is used to account for sanitary sewer services provided to the residential and commercial users.

**Refuse Services Fund** – is used to account for the operations and activities of garbage collection and recycling for residential customer within the City of Durand.

Additionally, the City reports the following fund types –

**Special Revenue Funds** – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

**Debt Service Funds** – are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

**Capital Projects Fund** – are used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

**Internal Service Fund** – is used to account for the costs of operating and maintaining the City’s equipment. Charges are made to other funds based on equipment used.

**Other Employee Trust Funds** – is used to accumulate resources for insurance , health benefits, and vested vacation and sick for qualified employees.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Tax Agency Trust Fund** – is used to account for collection and distribution of taxes. The Agency Fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise and Internal Services Funds are charges to customers for sale and services. Operating expenses from Enterprise and Internal Service Funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets or Equity –**

**Deposits and Investments –**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value. Investments are certificates of deposit with a maturity of greater than ninety days from purchase date.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Receivables and Payables –**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**Property Tax Receivables –**

All delinquent real property taxes, utility charges and special assessments become liens against the related property and are reimbursed by Shiawassee County’s Delinquent Tax Revolving Fund. The County will, however, charge back to the City any amounts not collected at the end of three years.

**Allowances For Doubtful Accounts Receivable –**

The City utilizes the direct write-off method for all funds. Past experience has indicated the write-off of accounts receivable are immaterial and do not warrant the use of a contra account for this allowance.

**Inventories and Prepaid Items –**

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds, except DPW supplies are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Property Tax Calendar –**

Taxes are levied on July 1 and are payable at that time. The City bills and collects its own property taxes and also collects taxes for the County, intermediate school district, community college, library and local school district. Collections of all taxes other than City taxes and the remittance of them are accounted for in the Tax Collection Fund.

The City is permitted by state statute to levy taxes of 16.6252 mills for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The City levied 15.6252 mills for general governmental purposes plus 3.25 mills for debt service and 1.00 mills for streets for a total of 19.8752 mills.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Capital Assets –**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure (principally roads and sidewalks) acquired prior to July 1, 2003.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>	<u>Component Unit (DDA)</u>
Buildings and Building Improvements	30-50	-
Machinery and equipment	3-30	-
Vehicles	3-12	-
Streets/Street lights	20-30	30
Water and sewer system	5-50	-
Drains	-	50
Roads and sidewalks	5-50	-

**Compensated Absences –**

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The City has elected to fund vacation and sick time as it is earned. As a result these amounts are appropriately accounted for in the Other Employee Benefit Trust Fund.

**Long-Term Obligations –**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity –**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates -**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information –**

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- 1) Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.
- 2) A Public Hearing is conducted to obtain taxpayers' comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution. The budgets are legally enacted at the activity level for the General Fund and total fund level for the Special Revenue Funds and Downtown Development Authority.
- 4) Any amendments to the budget must be approved by City Council.
- 5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue Funds and the Downtown Development Authority.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont’d):**

- 6) Budget appropriations lapse at year-end.
- 7) The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.

The general fund budget is approved at the activity level and the total expenditure level for the Special Revenue Funds. Expenditures at these legally adopted levels are a violation of the Budgetary Act. During the year the City incurred expenditures in the General and Special Revenue Fund which was in excess of the amount appropriated as follows:

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
General Fund –			
General Government –			
General Administration	\$ 338,000	\$ 391,516	\$ 53,516
Public Safety –			
Police Department	599,550	637,971	38,421
Public Works –			
Director of Public Works	75,150	75,648	498
Recreation and Cultural –			
Parks and Recreation	91,400	104,096	12,696
Transfers Out	-	9,289	9,289

Although the City complies with Michigan Compiled Laws, the City’s investment policy requires that various information be obtained from each financial institution, that certain quarterly reporting of investments be made to the City Council, and that certificates of deposit be collateralized at 102% of market value of principle and accrued interest. We noted that the City was not in compliance in these areas.

**NOTE 3 – DEPOSITS AND INVESTMENTS:**

At year-end, the carrying amount of the City Reporting Entity’s deposits and investments are as follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Unit</u>	<u>Reporting Entity</u>
Deposits -				
Petty cash and cash on hand	\$ 250	\$ 50	\$ -	\$ 300
Deposits with Financial Institutions -				
Checking/Money Market	200,852	34,818	99,433	335,103
Certificates of Deposit	373,065	100,000	-	473,065
Total Deposits	<u>574,167</u>	<u>134,868</u>	<u>99,433</u>	<u>808,468</u>
Investments -				
Investment Trusts/Mutual Funds	<u>1,029,230</u>	<u>( 752)</u>	<u>-</u>	<u>1,028,478</u>
Total Investments	<u>1,029,230</u>	<u>( 752)</u>	<u>-</u>	<u>1,028,478</u>
Grand Total	<u>\$ 1,603,397</u>	<u>\$ 134,116</u>	<u>\$ 99,433</u>	<u>\$1,836,946</u>

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS – (cont’d):**

**Reconciliation To Combined Balance Sheet**

	Primary Government	Component Unit	Fiduciary Unit	Reporting Entity
Reported as Cash and Cash Equivalents -				
Petty Cash and Cash On Hand	\$ 250	\$ 50	\$ -	\$ 300
Cash in Checking	200,852	34,818	99,433	335,103
Certificates of Deposit	102,948	100,000	-	202,948
Investment Trusts/ Mutual Funds	<u>1,029,230</u>	<u>(752)</u>	<u>-</u>	<u>1,028,478</u>
Total Cash and Cash Equivalents				
Reported on Combined Balance Sheet	<u>1,333,280</u>	<u>134,116</u>	<u>99,433</u>	<u>1,566,829</u>
Reported as Investments -				
Certificate of Deposit	<u>270,117</u>	<u>-</u>	<u>-</u>	<u>270,117</u>
Total Investments Reported on				
Combined Balance Sheet	<u>270,117</u>	<u>-</u>	<u>-</u>	<u>270,117</u>
Grand Total - Combined Balance Sheet	<u>\$ 1,603,397</u>	<u>\$ 134,116</u>	<u>\$ 99,433</u>	<u>\$1,836,946</u>

Safety of principal is the primary objective of the City’s investment policy. Deposits and investments of the City should be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain the objective, diversification is required in order that potential losses in individual securities do not exceed the income generated from the remainder of the portfolio.

***Custodial Credit Risk*** – is the risk that in the event of a bank failure, the City’s deposits or investments may not be returned. The City policy requires all financial institutions provide certain information to the City regarding the financial strength of the institution and that the Treasurer conduct an annual review. The City’s investment policy also requires collateralization of 102% of the market value of principle and accrual interest for all certificates of deposit.

***Interest Rate Risk*** – is the risk that the market value of securities in the City’s portfolio will fall due to changes in market interest increases. The City policy attempts to minimize interest rate risk by avoiding the need to sell securities prior to maturity and investing operating funds primarily in short term securities, money markets mutual funds or similar public investment pools.

***Credit Risk*** – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws limit the types of investments the City can purchase.

***Concentration of Credit Risk*** – is the risk of loss attributed to the magnitude of the City’s investments in a single issuer. The City’s investment policy requires that it diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City’s total investment portfolio will be invested in a single security type or with a single financial institution.



**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):**

**Deposits –**

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2006, the bank balance of the City's deposits were \$1,890,689 of which \$208,491 was FDIC insured with the balance \$1,682,198 exposed to credit risk because they are uninsured and uncollateralized.

**Investments –**

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase; are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.188; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

At June 30, 2006, the City was invested in one mutual fund with SEI Investments in the amount of \$1,078,950. The fund invests exclusively in U.S. Treasury obligations and repurchase agreements fully collateralized by U.S. Treasury obligations. The fund has an AAA rating and an average weighted maturity of 3 days.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 4 – RECEIVABLES:**

Receivables in the governmental and business type activities are as follows:

	Governmental Activities	Business Type Activities
Interest and accounts	\$ 18,314	\$ 351,099
Special Assessments	15,601	-
Intergovernmental – Federal/State	<u>230,579</u>	<u>-</u>
	<u>\$ 264,494</u>	<u>\$ 351,099</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Non-Major Governmental Funds – Grants	\$ 21,300
Special Assessments	<u>13,446</u>
	<u>\$ 34,746</u>

**NOTE 5 – CAPITAL ASSETS:**

**Primary Government**

Capital asset activity of the primary government for the year ended June 30, 2006 was as follows:

	July 1, 2005 Balance	Additions	Deletions/ Adjustments	June 30, 2006 Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,495,195	\$ 101,857	\$ -	\$ 1,597,052
Construction in progress	<u>26,325</u>	<u>48,244</u>	<u>-</u>	<u>74,569</u>
Total capital assets not being depreciated	<u>1,521,520</u>	<u>150,101</u>	<u>-</u>	<u>1,671,621</u>
Capital assets, being depreciated:				
Buildings and improvements	3,290,837	-	-	3,290,837
Infrastructure	598,446	6,017	-	604,463
Machinery and equipment	856,793	106,060	101,234	1,064,087
Vehicles	<u>1,156,183</u>	<u>50,640</u>	<u>( 272,889)</u>	<u>933,934</u>
Total capital assets being depreciated	<u>5,902,259</u>	<u>162,717</u>	<u>( 171,655)</u>	<u>5,893,321</u>

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### NOTE 5 – CAPITAL ASSETS – (cont'd):

	July 1, 2005 <u>Balance</u>	<u>Additions</u>	Deletions/ <u>Adjustments</u>	June 30, 2006 <u>Balance</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 898,306	\$ 75,217	\$ 13,909	\$ 987,432
Infrastructure	18,590	30,148	-	48,738
Machinery and equipment	603,005	69,011	( 138,902)	533,114
Vehicles	<u>664,768</u>	<u>73,044</u>	<u>( 45,582)</u>	<u>692,230</u>
Total accumulated depreciation	<u>2,184,669</u>	<u>247,420</u>	<u>( 170,575)</u>	<u>2,261,514</u>
Total capital assets being depreciated, net	<u>3,717,590</u>	<u>( 84,703)</u>	<u>( 1,080)</u>	<u>3,631,807</u>
Governmental activities capital assets, net	<u>\$ 5,239,110</u>	<u>\$ 65,398</u>	<u>\$( 1,080)</u>	<u>\$ 5,303,428</u>
<b>Business Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 151,400	\$ -	\$ -	\$ 151,400
Construction in progress	<u>13,426</u>	<u>-</u>	<u>-</u>	<u>13,426</u>
Total capital assets, not being depreciated	<u>164,826</u>	<u>-</u>	<u>-</u>	<u>164,826</u>
Capital assets, being depreciated:				
Buildings and improvements	3,784,515	-	-	3,784,515
Machinery and equipment	93,641	-	( 25,486)	68,155
Waste Water System	4,305,969	17,731	( 228)	4,323,472
Water System	<u>4,536,289</u>	<u>5,072</u>	<u>( 144,101)</u>	<u>4,397,260</u>
Total capital assets being depreciated	<u>12,720,413</u>	<u>22,803</u>	<u>( 169,815)</u>	<u>12,573,401</u>
Less accumulated depreciation	<u>5,131,283</u>	<u>281,645</u>	<u>121,807</u>	<u>5,291,121</u>
Total Capital assets being depreciated, net	<u>7,589,130</u>	<u>( 258,842)</u>	<u>( 48,008)</u>	<u>7,282,280</u>
Business activities capital assets, net	<u>\$ 7,753,956</u>	<u>\$( 258,842)</u>	<u>\$( 48,008)</u>	<u>\$ 7,447,106</u>
<b>Component Unit (DDA):</b>				
Capital assets, being depreciated:				
Street lights	\$ 204,000	\$ -	\$ -	\$ 204,000
Drain improvements	<u>48,000</u>	<u>-</u>	<u>-</u>	<u>48,000</u>
Total capital assets being depreciated	<u>252,000</u>	<u>-</u>	<u>-</u>	<u>252,000</u>
Less accumulated depreciation	<u>77,600</u>	<u>7,760</u>	<u>-</u>	<u>85,360</u>
Total capital assets being depreciated, net	<u>\$ 174,400</u>	<u>\$ 7,760</u>	<u>\$ -</u>	<u>\$ 166,640</u>

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 5 – CAPITAL ASSETS – (cont'd):**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 19,419
Public Safety	10,042
Public Works	31,457
Recreation and Cultural	<u>53,575</u>
Total depreciation expense-governmental activities	<u>\$ 114,493</u>
Business-type activities:	
Water Fund	\$ 114,801
Sewer Fund	<u>166,844</u>
Total depreciation expense-business-type activities	<u>\$ 281,645</u>

In addition there was depreciation of \$132,927 in the Equipment Revolving Fund.

**NOTE 6 – PAYABLES:**

Payables in the governmental and business-type activities are as follows:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Accounts payable/accrued liabilities	\$ 126,746	\$ 65,113
Accrued wages and fringe benefits	<u>16,966</u>	<u>3,306</u>
	<u>\$ 143,712</u>	<u>\$ 68,419</u>

**NOTE 7 – INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:**

The composition of interfund balances as of June 30, 2006:

**Due To/From Other Funds –**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Street Fund	Local Street Fund	\$ 7,230
Streetscape Project Fund	Street Fund	22,944
Building Inspection Fund	General Fund	350
General Fund	Streetscape Project Fund	<u>125</u>
Total Governmental funds		<u>\$ 30,649</u>

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 7 – INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS – (cont'd):**

**Transfers From/To Other Funds -**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Local Street Fund	Major Street Fund	\$ 18,000
Building Inspection Fund	General Fund	9,289
Fire Hall Debt Retirement Fund	General Fund	37,933
Streetscape Project Fund	Street Fund	<u>23,069</u>
Total Transfers		<u>\$ 88,291</u>

**NOTE 8 - LONG-TERM LIABILITIES:**

**PRIMARY GOVERNMENT -**

The following is a summary of changes in the long-term liabilities (including current portions) for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Governmental Funds -					
2001 Sewer Refunding Bond	\$ 360,000	\$ -	\$ 25,000	\$ 335,000	\$ 25,000
2001 Water Refunding Bond	2,080,000	-	60,000	2,020,000	70,000
2002 Limited Tax Bond	225,000	-	30,000	195,000	30,000
2005 Installment Purchase Contract	<u>478,330</u>	<u>-</u>	<u>24,442</u>	<u>453,888</u>	<u>25,490</u>
Total Governmental Funds	<u>3,143,330</u>	<u>-</u>	<u>139,442</u>	<u>3,003,888</u>	<u>150,490</u>
Internal Service Fund –					
2001 Installment Purchase	36,401	-	18,574	17,827	17,827
2005 Installment Purchase	227,307	-	18,889	208,418	19,654
Compensated Absences	<u>2,939</u>	<u>89</u>	<u>-</u>	<u>3,028</u>	<u>-</u>
Total Internal Service Fund	<u>266,647</u>	<u>89</u>	<u>37,463</u>	<u>229,273</u>	<u>37,481</u>
Total Governmental Activities	<u>3,409,977</u>	<u>89</u>	<u>176,905</u>	<u>3,233,161</u>	<u>187,971</u>

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
<b><u>Business-Type Activities:</u></b>					
Enterprise Funds –					
Wastewater Fund –					
Wastewater Treatment					
Bonds, Series 1998	\$ 105,000	\$ -	\$ 30,000	\$ 75,000	\$ 30,000
2004 Capital					
Improvement Bond	200,000	-	25,000	175,000	27,500
Wastewater Treatment					
Bonds, Series 1999	1,105,000	-	35,000	1,070,000	35,000
Compensated Absences	4,985	-	1,786	3,199	-
Water Fund –					
2004 Capital					
Improvement Bond	200,000	-	25,000	175,000	27,500
Compensated Absences	<u>4,179</u>	<u>-</u>	<u>2,110</u>	<u>2,069</u>	<u>-</u>
Total Business-Type Activities	<u>1,619,164</u>	<u>-</u>	<u>118,896</u>	<u>1,500,268</u>	<u>120,000</u>
<b><u>Fiduciary Activities:</u></b>					
Agency Fund –					
Employee Benefit Fund –					
Compensated Absences	<u>39,798</u>	<u>3,068</u>	<u>-</u>	<u>42,866</u>	<u>-</u>
Total Entity Primary					
Government	<u>\$ 5,068,939</u>	<u>\$ 3,157</u>	<u>\$ 295,801</u>	<u>\$4,776,295</u>	<u>\$ 307,971</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

**General Obligation Bonds –**

\$300,000 General Obligation Unlimited Tax Bonds,  
dated October 7, 2002, due in annual installments  
of \$30,000 to \$35,000 through May 1, 2012, with  
interest of 3.0% to 3.85% payable semi-annually

\$ 195,000

\$450,000, General Obligation Unlimited Tax  
Sewer Refunding Bonds, dated July 17, 2001  
due in annual installments of \$25,000 to \$50,000  
through May 1, 2015, with interest ranging from  
4.50% to 5% payable semi-annually

335,000

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

\$2,255,000, General Obligation Unlimited Tax Water Refunding Bonds, dated July 17, 2001, due in annual installments of \$60,000 to \$285,000 through May 1, 2019, with interest ranging from 3.85% to 5% payable semi-annually

2,020,000

\$ 2,550,000

**Water and Wastewater Treatment Bonds –**

\$250,000, Sewage Disposal System Revenue Bonds, dated July 1, 1999, due in annual installments of \$30,000 to \$40,000 through July 1, 2008, with interest of 4.5% payable semi-annually

\$ 75,000

\$1,300,000 Sewage Disposal System Revenue Bonds, dated September 23, 1999, due in annual installments of \$35,000 to \$100,000 through May 1, 2018, with interest of 5.30% to 5.65% payable semi-annually

1,070,000

\$400,000, General Obligation Limited Tax Capital Improvement Bonds, dated October 12, 2004, due in annual installments of \$55,000 to \$65,000 through October 1, 2011, with interest of 2.75% to 3.30% payable semi-annually. The bonds are being repaid 50% from the Water Fund and 50% from the Sewer Fund.

350,000

\$ 1,495,000

**Installment Loan Funds -**

The City has entered into a vendor financing agreement to finance the purchase of a fire truck. The vendor subsequently assigned its interest in the contract to a local bank to which installment payments are made by the City on a quarterly basis.

\$ 17,827

On September 2, 2004, the City of Durand entered into an installment purchase agreement to finance a purchase of real estate in the amount of \$490,000. The note is payable over fifteen years with an interest rate of 4.25%.

453,888

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

On April 15, 2005, the City of Durand entered into an installment purchase agreement to finance a purchase of a cleaner mounted truck in the amount of \$227,307. The note is payable over ten years with an interest rate of 4.05%.

208,418  
\$ 680,133

**Compensated Absences -**

In accordance with contracts negotiated with the various employee groups of the City of Durand, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements in the Water Fund, Wastewater Fund, Equipment Revolving Fund and Employee Benefits Fund in the amounts of \$2,069, \$3,199, \$3,028 and \$42,811, respectively at June 30, 2006.

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2006 (excluding compensated absences) are as follows:

Year Ending June 30,	Water and Wastewater Bonds						Capital	
	General Obligation Bonds		Revenue Bonds		Installment Loan		Improvement Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 125,000	\$ 118,706	\$ 70,000	\$ 61,385	\$ 62,975	\$ 27,971	\$ 55,000	\$ 9,359
2008	140,000	113,988	75,000	57,955	47,035	25,572	55,000	7,845
2009	150,000	108,478	100,000	54,300	49,005	23,603	55,000	6,403
2010	165,000	102,313	100,000	49,000	51,058	21,550	60,000	4,860
2011	180,000	95,375	100,000	43,700	53,196	19,411	60,000	3,075
2012-2016	995,000	350,253	500,000	138,050	273,240	61,701	65,000	1,073
2017-2021	<u>795,000</u>	<u>81,500</u>	<u>200,000</u>	<u>16,900</u>	<u>143,624</u>	<u>12,485</u>	-	-
	<u>\$ 2,550,000</u>	<u>\$ 970,613</u>	<u>\$ 1,145,000</u>	<u>\$ 421,290</u>	<u>\$ 680,133</u>	<u>\$ 192,293</u>	<u>\$ 350,000</u>	<u>\$ 32,615</u>

**COMPONENT UNIT -**

The following is a summary of changes in long-term liabilities (including current portion) of the Component Unit for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Downtown Development Authority – Tax Increment Development Bonds	<u>\$ 95,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 75,000</u>	<u>\$ 25,000</u>

\$225,000 Limited Tax General Obligation Tax Increment Development Bonds, dated December 7, 1994, due in annual installments of \$25,000 through May 1, 2009, with interest ranging from 5.00% to 7.00% payable semi-annually

\$ 75,000



# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### NOTE 8 – LONG-TERM LIABILITIES - (cont'd):

The annual debt service requirements to maturity for the long-term obligations outstanding at June 30, 2006 are as follows:

Year Ending June 30,	Development Bonds	
	Principal	Interest
2007	\$ 25,000	\$ 4,076
2008	25,000	2,500
2009	<u>25,000</u>	<u>1,250</u>
	<u>\$ 75,000</u>	<u>\$ 7,826</u>

### NOTE 9 – RETIREMENT PLANS:

#### Plan Description –

The City of Durand participates in the Municipal Employees Retirement System (MERS), a multiple employer statewide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

#### Funding Policy –

The plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate; the rate for 2006 was 8.82% and 11.74% of payroll for general government and police/fire departments, respectively. The contribution requirements of plan members and the City are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

#### Annual Pension Costs –

For fiscal 2006, the City's annual pension cost of \$85,128 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### NOTE 9 – RETIREMENT PLANS – (cont'd):

#### Three-Year Trend Information

Fiscal Year Ending June 30,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2004	\$ 91,349	100	-
2005	101,213	100	-
2006	85,128	100	-

#### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2003	\$ 2,626,610	\$ 3,143,303	\$ 516,693	84 %	\$ 955,518	54 %
2004	2,755,571	3,370,613	615,042	82	1,001,469	61
2005	2,875,799	3,387,910	512,111	85	938,634	55

### NOTE 10 - POST RETIREMENT BENEFITS:

In addition to the pension benefits described in Note 9, the City provides Health Care coverage for retired employees with twenty-five (25) years of service and for employees with less than twenty-five (25) years of service, if age sixty (60) has been reached. Employees receive upon retirement and eligibility for a pension from the City, four percent (4%) per year of service, paid toward the above stated coverage. The expenditures for the post-retirement health care benefits are recognized on a pay-as-you-go basis. The expenditures for retirees' health insurance amount to \$68,940 for 2006.

### NOTE 11 - RISK MANAGEMENT:

#### General Liability

The City participates in the Michigan Municipal League Liability and Property Pool liability insurance program. In general, the City carries \$10,000,000 of liability coverage and approximately \$18,660,000 of property insurance with a \$1,000 per claim deductible on property and computer equipment, and a \$1,000 per claim deductible on equipment and mechanical systems.

#### Workers' Compensation

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### NOTE 12 - CONTINGENCIES:

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2006.

### NOTE 13 – FUND EQUITY – RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

#### Reserved Fund Balance –

Fund Balance has been reserved in the following funds to indicate a portion of fund balance is not available but reserved for a specific purpose at June 30, 2006.

#### Primary Government –

##### General Fund –

Prepaid and Deposits	\$ 37,929
Inventory	323
Park Donations	23,243
Drug Forfeiture	306
Park Development	565
Playground Development	<u>906</u>
	<u>63,312</u>

##### Major Street Fund –

Inventory	<u>3,000</u>
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##### Local Street Fund –

Inventory	<u>3,214</u>
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##### Other Governmental Funds -

###### Fire Hall –

Debt Service	3,253
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###### 2001 Wastewater Treatment Plant Fund –

Debt Service	34,595
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###### 2001 Water Bond-

Debt service	82,257
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###### Industrial Complex –

Capital Project	51
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###### Depot Restoration –

Capital Project	<u>8,626</u>
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Total Other Governmental Funds	<u>128,782</u>
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Total Primary Government	<u>\$ 198,308</u>
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**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 13 – FUND EQUITY – RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS – (cont'd):**

**Component Unit –**

Downtown Development Authority –

Friday Night Live

Façade

\$ 10,999

22,021

\$ 33,020

**Designated Fund Balance –**

The City Council has designated \$100,000 of the General Fund Fund Balance for establishing a post retirement benefit fund.

**Reserved Retained Earnings –**

Retained Earnings has been reserved in the Water Fund at June 30, 2006 in the amount of \$15,000 to indicate a portion of retained earnings is reserved for well head protection and \$178,800 for Debt Service payments in the Waste Water Fund.

**NOTE 14 – PRIOR PERIOD ADJUSTMENTS:**

A prior period of adjustments was made to increase the beginning retained earning of the Water and Sewer Funds in the amount of \$40,000 and \$60,000, respectively, to reflect the adjusted billing for one of the City's commercial entities.

As a prior period adjustment was made to increase the beginning retained earnings in the Refuse Service Fund in the amount of \$12,515 to record an additional prepaid expense at June 30, 2005.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# CITY OF DURAND, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 1,115,300	\$ 1,115,300	\$ 1,103,019	\$( 12,281)
Licenses and permits	28,400	28,400	28,710	310
Intergovernmental -				
Federal/State	535,900	535,900	528,267	( 7,633)
Charges for services	16,800	16,800	21,435	4,635
Fines and forfeits	12,500	12,500	24,751	12,251
Interest and rents	15,000	15,000	34,293	19,293
Other	1,000	1,000	1,961	961
	<u>1,724,900</u>	<u>1,724,900</u>	<u>1,742,436</u>	<u>17,536</u>
<b>Expenditures:</b>				
General Government -				
Legislative	17,600	13,600	12,112	1,488
City Manager	103,550	103,550	98,355	5,195
Elections	10,900	7,900	4,503	3,397
Assessor	20,700	24,700	22,485	2,215
City Clerk	179,650	179,650	175,492	4,158
Treasurer	125,000	125,000	123,782	1,218
General administration	295,000	338,000	391,516	( 53,516)
Planning	22,800	17,800	11,686	6,114
	<u>775,200</u>	<u>810,200</u>	<u>839,931</u>	<u>( 29,731)</u>
Less: Reimbursement from other funds	<u>( 279,500)</u>	<u>( 279,150)</u>	<u>( 279,150)</u>	<u>-</u>
Total General Government	<u>495,700</u>	<u>531,050</u>	<u>560,781</u>	<u>( 29,731)</u>
Public Safety -				
Police department	609,550	599,550	637,971	( 38,421)
Fire department	99,400	99,400	98,417	983
	<u>708,950</u>	<u>698,950</u>	<u>736,388</u>	<u>( 37,438)</u>
Public Works -				
Director of public works	75,150	75,150	75,648	( 498)
Department of public works	367,300	352,300	335,028	17,272
	<u>442,450</u>	<u>427,450</u>	<u>410,676</u>	<u>16,774</u>
Recreational and Cultural-				
Parks and recreation	101,400	91,400	104,096	(12,696)
Total Expenditures	<u>1,748,500</u>	<u>1,748,850</u>	<u>1,811,941</u>	<u>(63,091)</u>
Excess of revenues under expenditures	<u>( 23,600)</u>	<u>( 23,950)</u>	<u>( 69,505)</u>	<u>( 45,555)</u>

Continued

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>Other Financing Uses:</b>				
Transfer Out-				
Building	-	-	( 9,289)	( 9,289)
Fire Hall Debt	<u>( 38,000)</u>	<u>( 38,000)</u>	<u>( 37,933)</u>	<u>67</u>
Total other financing uses	<u>( 38,000)</u>	<u>( 38,000)</u>	<u>( 47,222)</u>	<u>( 9,222)</u>
Excess of revenues over (under) expenditures and other uses	( 61,600)	( 61,950)	( 116,727)	( 54,777)
Fund Balance at beginning of year	<u>603,748</u>	<u>603,748</u>	<u>603,748</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 542,148</u></u>	<u><u>\$ 541,798</u></u>	<u><u>\$ 487,021</u></u>	<u><u>\$( 54,777)</u></u>

Concluded

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
MAJOR STREET FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budget</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental -				
State	\$ 750,900	\$ 750,900	\$ 172,787	\$( 578,113)
Interest	200	200	553	353
	<u>751,100</u>	<u>751,100</u>	<u>173,340</u>	<u>( 577,760)</u>
<b>Expenditures:</b>				
Public Works -				
Administration	6,000	6,000	6,000	-
Maintenance	759,700	759,700	56,566	703,134
Winter Maintenance	32,800	32,800	20,944	11,856
	<u>798,500</u>	<u>798,500</u>	<u>83,510</u>	<u>714,990</u>
Excess of revenues over (under) expenditures	<u>( 47,400)</u>	<u>( 47,400)</u>	89,830	137,230
<b>Other Financing Sources (Uses):</b>				
Transfers in -				
Street Fund	65,400	65,400	-	( 65,400)
Transfers out -				
Local Street Fund	<u>( 18,000)</u>	<u>( 18,000)</u>	<u>( 18,000)</u>	<u>-</u>
	<u>47,400</u>	<u>47,400</u>	<u>( 18,000)</u>	<u>( 65,400)</u>
Excess of revenues and other sources over expenditures and other uses	-	-	71,830	71,830
Fund Balance at beginning of year	<u>15,294</u>	<u>15,294</u>	<u>15,294</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 15,294</u></u>	<u><u>\$ 15,294</u></u>	<u><u>\$ 87,124</u></u>	<u><u>\$ 71,830</u></u>



**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**BUDGET AND ACTUAL**

**LOCAL STREET FUND**

**FOR THE YEAR ENDED JUNE 30, 2006**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental -				
State	\$ 71,500	\$ 71,500	\$ 77,923	\$ 6,423
Interest	-	-	570	570
	<u>71,500</u>	<u>71,500</u>	<u>78,493</u>	<u>6,993</u>
<b>Expenditures:</b>				
Public Works -				
Administration	6,000	6,000	6,000	-
Maintenance	63,300	63,300	50,786	12,514
Winter Maintenance	20,200	20,200	9,764	10,436
	<u>89,500</u>	<u>89,500</u>	<u>66,550</u>	<u>22,950</u>
Excess of revenues over (under) expenditures	( 18,000)	( 18,000)	11,943	29,943
<b>Other Financing Sources:</b>				
Transfers in -				
Major Street Fund	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>-</u>
Excess of revenues and other sources over expenditures	-	-	29,943	29,943
Fund Balance at beginning of year	<u>12,729</u>	<u>12,729</u>	<u>12,729</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 12,729</u>	<u>\$ 12,729</u>	<u>\$ 42,672</u>	<u>\$ 29,943</u>

## **OTHER SUPPLEMENTARY INFORMATION**

# CITY OF DURAND, MICHIGAN

## NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2006

	Special Revenue Funds			
	Street	Sidewalks & Curbs	Building Inspection	DUS Centennial Commission
<b>ASSETS</b>				
Cash and cash equivalents	\$ 17,588	\$ 12,010	\$ -	\$ 708
Investment	102,923	-	-	-
Receivables				
Accounts	803	-	-	-
Special Assessments Receivable	6,464	9,137	-	-
Due from other governmental units - Federal/State	-	-	-	-
Due from other funds	-	-	350	-
	<u>-</u>	<u>-</u>	<u>350</u>	<u>-</u>
Total Assets	<u>\$ 127,778</u>	<u>\$ 21,147</u>	<u>\$ 350</u>	<u>\$ 708</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ 315	\$ -
Due to other funds	23,069	-	-	-
Deferred revenue	4,309	9,137	-	-
Total Liabilities	<u>27,378</u>	<u>9,137</u>	<u>315</u>	<u>-</u>
<b>Fund Balance:</b>				
Reserved -				
Capital projects	-	-	-	-
Debt service	-	-	-	-
Unreserved -				
Undesignated	100,400	12,010	35	708
Total Fund Balance	<u>100,400</u>	<u>12,010</u>	<u>35</u>	<u>708</u>
Total Liabilities and Fund Balance	<u>\$ 127,778</u>	<u>\$ 21,147</u>	<u>\$ 350</u>	<u>\$ 708</u>

Debt Service Funds			Capital Project Funds				Total
Fire Hall	2001 Wastewater Treatment Plant	2001 Water Bond	Industrial Complex	Depot Restoration	Streetscape Project	Optimist Park	
\$ 3,253	\$ 34,595	\$ 82,257	\$ 51	\$ 12,247	\$ -	\$ -	\$ 162,709
-	-	-	-	-	-	-	102,923
-	-	-	-	-	-	-	803
-	-	-	-	-	-	-	15,601
-	-	-	-	-	21,300	-	21,300
-	-	-	-	-	22,944	-	23,294
<u>\$ 3,253</u>	<u>\$ 34,595</u>	<u>\$ 82,257</u>	<u>\$ 51</u>	<u>\$ 12,247</u>	<u>\$ 44,244</u>	<u>\$ -</u>	<u>\$ 326,630</u>
\$ -	\$ -	\$ -	\$ -	\$ 3,621	\$ 22,944	\$ -	\$ 26,880
-	-	-	-	-	-	-	23,069
-	-	-	-	-	21,300	-	34,746
-	-	-	-	3,621	44,244	-	84,695
-	-	-	51	8,626	-	-	8,677
3,253	34,595	82,257	-	-	-	-	120,105
-	-	-	-	-	-	-	113,153
<u>3,253</u>	<u>34,595</u>	<u>82,257</u>	<u>51</u>	<u>8,626</u>	<u>-</u>	<u>-</u>	<u>241,935</u>
<u>\$ 3,253</u>	<u>\$ 34,595</u>	<u>\$ 82,257</u>	<u>\$ 51</u>	<u>\$ 12,247</u>	<u>\$ 44,244</u>	<u>\$ -</u>	<u>\$ 326,630</u>

# CITY OF DURAND, MICHIGAN

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			
	Street	Sidewalks & Curbs	Building Inspection	DUS Centennial Commission
<b>Revenues:</b>				
Taxes	\$ 67,230	\$ -	\$ -	\$ -
Licenses and permits	-	-	13,824	-
Interest	4,883	389	-	-
Special assessment	3,356	14,803	-	-
Other	-	-	-	1,490
Total Revenues	<u>75,469</u>	<u>15,192</u>	<u>13,824</u>	<u>1,490</u>
<b>Expenditures:</b>				
Current -				
Public Safety	-	-	23,110	-
Public Works	-	13,707	-	-
Park and Recreation	-	-	-	6,115
Debt Service				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	<u>-</u>	<u>13,707</u>	<u>23,110</u>	<u>6,115</u>
Excess of revenues over (under) expenditures	<u>75,469</u>	<u>1,485</u>	<u>( 9,286)</u>	<u>( 4,625)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	9,289	-
Transfers Out	( 23,069)	-	-	-
Total Other Financing Sources	<u>( 23,069)</u>	<u>-</u>	<u>9,289</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	52,400	1,485	3	( 4,625)
Fund Balances at beginning of year	<u>48,000</u>	<u>10,525</u>	<u>32</u>	<u>5,333</u>
Fund Balances at end of year	<u>\$ 100,400</u>	<u>\$ 12,010</u>	<u>\$ 35</u>	<u>\$ 708</u>

Debt Service Funds			Capital Project Funds				Total
Fire Hall	2001 Wastewater Treatment Plant	2001 Water Bond	Industrial Complex	Depot Restoration	Streetscape Project	Optimist Park	
\$ -	\$ 50,091	\$ 168,405	\$ -	\$ -	\$ -	\$ -	\$ 285,726
-	-	-	-	-	-	-	13,824
-	1,274	2,474	-	-	-	-	9,020
-	-	-	-	-	-	-	18,159
-	-	-	-	-	-	-	1,490
-	51,365	170,879	-	-	-	-	328,219
-	-	-	-	-	-	-	23,110
-	-	-	-	-	23,069	-	36,776
-	-	-	-	-	-	7	6,122
30,000	25,000	60,000	-	-	-	-	115,000
7,933	17,131	98,671	-	-	-	-	123,735
37,933	42,131	158,671	-	-	23,069	7	304,743
( 37,933)	9,234	12,208	-	-	( 23,069)	( 7)	23,476
37,933	-	-	-	-	23,069	-	70,291
-	-	-	-	-	-	-	( 23,069)
37,933	-	-	-	-	23,069	-	47,222
-	9,234	12,208	-	-	-	( 7)	70,698
3,253	25,361	70,049	51	8,626	-	7	171,237
\$ 3,253	\$ 34,595	\$ 82,257	\$ 51	\$ 8,626	\$ -	\$ -	\$ 241,935

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>STREET FUND</b>				
<b>Revenues:</b>				
Taxes	\$ 68,600	\$ 68,600	\$ 67,230	\$( 1,370)
Special assessments	2,400	2,400	3,356	956
Interest	200	200	4,883	4,683
	<u>71,200</u>	<u>71,200</u>	<u>75,469</u>	<u>4,269</u>
<b>Expenditures:</b>				
Public Works - Maintenance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	71,200	71,200	75,469	4,269
<b>Other Financing Uses:</b>				
Transfers out - Streetscape Fund	<u>( 65,400)</u>	<u>( 65,400)</u>	<u>( 23,069)</u>	<u>42,331</u>
Excess of revenues under expenditures and other uses	5,800	5,800	52,400	46,600
Fund Balance at beginning of year	<u>48,000</u>	<u>48,000</u>	<u>48,000</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 53,800</u></u>	<u><u>\$ 53,800</u></u>	<u><u>\$ 100,400</u></u>	<u><u>\$ 46,600</u></u>

**SIDEWALKS & CURBS FUND**

<b>Revenues:</b>				
Interest	\$ -	\$ -	\$ 389	\$ 389
Special Assessments	<u>6,800</u>	<u>6,800</u>	<u>14,803</u>	<u>8,003</u>
	6,800	6,800	15,192	8,392
<b>Expenditures:</b>				
Public Works - Contracted Services	<u>15,100</u>	<u>15,100</u>	<u>13,707</u>	<u>1,393</u>
Excess of revenues over (under) expenditures	( 8,300)	( 8,300)	1,485	9,785
Fund Balance at beginning of year	<u>10,525</u>	<u>10,525</u>	<u>10,525</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 2,225</u></u>	<u><u>\$ 2,225</u></u>	<u><u>\$ 12,010</u></u>	<u><u>\$ 9,785</u></u>

Continued

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>BUILDING INSPECTION FUND</b>				
<b>Revenues:</b>				
Licenses and permits -				
Permits	\$ 24,700	\$ 24,700	\$ 13,824	\$( 10,876)
<b>Expenditures:</b>				
Public Safety -				
Administration	6,000	6,000	5,650	350
Building inspection	18,700	18,700	17,460	1,240
	<u>24,700</u>	<u>24,700</u>	<u>23,110</u>	<u>1,590</u>
Excess of revenues under				
expenditures	-	-	( 9,286)	( 9,286)
<b>Other Financing Sources :</b>				
Transfers in -				
General Fund	<u>-</u>	<u>-</u>	<u>9,289</u>	<u>9,289</u>
Excess of revenues and other sources				
over expenditures	-	-	3	3
Fund Balance at beginning of year	<u>32</u>	<u>32</u>	<u>32</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 32</u></u>	<u><u>\$ 32</u></u>	<u><u>\$ 35</u></u>	<u><u>\$ 3</u></u>

Continued



**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>DUS CENTENNIAL COMMISSION</b>				
<b>Revenues:</b>				
Other				
Centennial Events and Sales	\$ -	\$ 1,400	\$ 1,294	\$( 106)
Calendar Sales	-	200	196	( 4)
	<u>-</u>	<u>1,600</u>	<u>1,490</u>	<u>( 110)</u>
<b>Expenditures:</b>				
Park and Recreation -				
Supplies	-	1,000	862	138
Contracted services	-	5,700	5,253	447
	<u>-</u>	<u>6,700</u>	<u>6,115</u>	<u>585</u>
Excess of revenues over (under)				
expenditures	-	( 5,100)	( 4,625)	475
Fund Balance at beginning of year	<u>5,333</u>	<u>5,333</u>	<u>5,333</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 5,333</u></u>	<u><u>\$ 233</u></u>	<u><u>\$ 708</u></u>	<u><u>\$ 475</u></u>

Concluded

# CITY OF DURAND, MICHIGAN

## AGENCY FUNDS STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR ENDED JUNE 30, 2006

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
<b>TAX COLLECTION FUND</b>				
<b>Assets:</b>				
Cash	\$ 30,445	\$ 2,460,258	\$ 2,420,524	\$ 70,179
<b>Liabilities:</b>				
Due to other governmental units	\$ 29,239	\$ 4,378,465	\$ 4,338,456	\$ 69,248
Due to other funds	-	303,224	303,224	-
Undistributed taxes	1,206	1,247	1,522	931
	<u>\$ 30,445</u>	<u>\$ 4,682,936</u>	<u>\$ 4,643,202</u>	<u>\$ 70,179</u>

**COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY**

# CITY OF DURAND, MICHIGAN

## BALANCE SHEET/STATEMENT OF NET ASSETS DOWNTOWN DEVELOPMENT AUTHORITY JUNE 30, 2006

ASSETS	Governmental Activities	GASB 34 Adjustments	Statement of Net Assets
Cash and cash equivalents	\$ 134,116	\$ -	\$ 134,116
Accounts receivable	859	-	859
Capital Assets (net of accumulated depreciation)			
Assets being depreciated	-	166,640	166,640
Total Assets	<u>\$ 134,975</u>	<u>\$ 166,640</u>	<u>\$ 301,615</u>
 <b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 3,071	\$ -	\$ 3,071
Accrued interest	-	679	679
Due to other governmental units -			
State	23,657	-	23,657
Local	678	-	678
Non-current liabilities			
Due within one year	-	25,000	25,000
Due in more than one year	-	50,000	50,000
Total Liabilities	<u>27,406</u>	<u>75,679</u>	<u>103,085</u>
<b>Fund Balance:</b>			
Reserved/Reserved -			
Friday night live	10,999	( 10,999)	-
Facade	22,021	( 22,021)	-
Unreserved/Unrestricted	74,549	( 74,549)	-
	<u>107,569</u>	<u>( 107,569)</u>	
Total Liabilities and Fund Balance	<u>\$ 134,975</u>		
<b>Net Assets:</b>			
Investment in capital assets, net of related liabilities		91,640	91,640
Restricted		33,020	33,020
Unrestricted		73,870	73,870
Total Net Assets		<u>\$ 90,961</u>	<u>\$ 198,530</u>

**CITY OF DURAND, MICHIGAN**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR  
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
ON THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY  
JUNE 30, 2006**

Fund Balances - total governmental funds	\$	107,569
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Amounts reported for Component unit activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Capital assets		252,000
Accumulated depreciation	(	85,360)

Long - term liabilities, including installments payable, are not due and payable  
in the current period and therefore are not reported in the funds.

Loan installments payable	(	75,000)
Increase in accrued interest	(	<u>679</u> )

Net Assets of Downtown Development Authority activities	\$	<u><u>198,530</u></u>
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**CITY OF DURAND, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/  
STATEMENT OF ACTIVITIES  
DOWNTOWN DEVELOPMENT AUTHORITY  
FOR THE YEARS ENDED JUNE 30, 2006**

	<u>Actual</u>	<u>GASB 34 Adjustments</u>	<u>Total</u>
<b>Revenues:</b>			
Taxes	\$ 58,875	\$ -	\$ 58,875
Interest	3,337	-	3,337
Other	5,525	-	5,525
	<u>67,737</u>	<u>-</u>	<u>67,737</u>
<b>Expenditures/Expenses:</b>			
Current -			
Public Works	11,131	7,760	18,891
Debt Service-			
Principal	20,000	( 20,000)	-
Interest and fiscal charges	5,625	( 209)	5,416
	<u>36,756</u>	<u>( 12,449)</u>	<u>24,307</u>
Excess of revenues over (under) expenditures	30,981	12,449	43,430
Fund Balance/Net Asset at beginning of year	<u>76,588</u>	<u>78,512</u>	<u>155,100</u>
Fund Balance/Net Asset at end of year	<u>\$ 107,569</u>	<u>\$ 90,961</u>	<u>\$ 198,530</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY  
JUNE 30, 2006**

Net change in fund balances - governmental funds	\$ 30,981
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	( 7,760)
Repayment of the principal of long-term debt consumes the current financial resources of the component fund, however has no effect on net assets	
Principal payment on long term liability	20,000
Increase in accrued interest	<u>209</u>
Change in net assets of Downtown Development Authority activities	<u>\$ 43,430</u>

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
DOWNTOWN DEVELOPMENT AUTHORITY  
FOR THE YEARS ENDED JUNE 30, 2006**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 70,000	\$ 70,000	\$ 58,875	\$( 11,125)
Interest	300	300	3,337	3,037
Other	-	-	5,525	5,525
	<u>70,300</u>	<u>70,300</u>	<u>67,737</u>	<u>( 2,563)</u>
<b>Expenditures:</b>				
Current -				
Public Works	13,200	13,200	11,131	2,069
Debt Service-				
Principal	20,000	20,000	20,000	-
Interest and fiscal charges	5,400	5,400	5,625	( 225)
	<u>38,600</u>	<u>38,600</u>	<u>36,756</u>	<u>1,844</u>
Excess of revenues over (under) expenditures	31,700	31,700	30,981	( 719)
Fund Balance at beginning of year	<u>76,588</u>	<u>76,588</u>	<u>76,588</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 108,288</u>	<u>\$ 108,288</u>	<u>\$ 107,569</u>	<u>\$( 719)</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council  
City of Durand, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand, Michigan, as of and for the year ended June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Durand, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted the following matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Durand's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

**The payroll bank account should be reconciled to the General Ledger on a monthly basis.**

During the year, the payroll bank account was not reconciled to the General Ledger on a monthly basis. As a result, error could occur and go undetected. To increase controls we recommend to the payroll account be reconciled to the General Ledger on a monthly basis with all differences researched and the necessary adjustments made.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited maybe occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described above is not a material weakness.




### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Durand, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of the City of Durand in a separate letter dated October 26, 2006.

This report is intended solely for the information and use of the audit committee, management and the City Council of the City of Durand, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

October 26, 2006



## MANAGEMENT LETTER

To the Honorable Mayor and  
Members of the City Council  
City of Durand, Michigan

As you know, we have recently completed our audit of the basic financial statements of the City of Durand, Michigan as of and for the year ended June 30, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the City's recordkeeping system. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated October 26, 2006, the conditions described below are not considered reportable conditions or material weaknesses.

**The City should file the required annual Downtown Development reports, form 2604.**

The City is required to file annual information regarding the City's Downtown Development activity including form 2604. The City has not filed the form for a number of years, or the Michigan Department of Treasury has requested that the form be corrected.

We recommend that the City file the forms as soon as possible and refund the excess any capture.

**The City should review and document the administration charges between the various funds.**

The City currently charges an administration fee from the general fund to various other funds of the City for services provided by the general fund. This is a very common and acceptable practice. However, it is our understanding that the method of determining the charges has not been reviewed and updated in a number of years.

We recommend that these charges be reviewed and documentations maintained on why, and the amount that is being charged.

**The assessment levied for Ambulance Services should be reported as a Special Revenue Fund as revenues of the City.**

During the prior year's audit it came to our attention that the City assesses a fee to each City taxpayer for the purpose of providing ambulance services. Currently the assessment is collected in the City's tax fund and passed through to the company providing the service, Durand Vernon Ambulance. However, because the City is the governmental unit assessing the fee and then contracting with Durand Vernon Ambulance to provide ambulance services, the assessment should be collected and recorded in a separate Special Revenue Fund. The payment for the service would then be recorded as expenditure, contracted ambulance services.

We recommend that a new Special Revenue Fund be established to account for this activity. This fund will require a budget be adopted in accordance with PA 621.

**The City should establish procedures to ensure that they comply with the City's investment policy and/or amended the investment policy.**

Although the City complies with Michigan Compiled Laws, the City's investment policy requires that certain information be obtained and collateralization be obtained for all certificates of deposit. During the audit, we noted that the City had not obtained collateralization for certification of deposit, annual information from financial institutions, and quarterly reporting to the City Council. We recommend that the City establish procedures to ensure that they comply with the City's investment policy.

**The salaries and wages reported on the general ledger and the wages reported in the payroll systems should be reconciled on a quarterly basis.**

At the current time, the quarterly IRS 941 reports are not reconciled to the wages on the City's general ledger. We recommend quarterly reconciliations be performed comparing wages per the City's general ledger to wages reported on the Federal 941 forms.

**The City should consider increasing the amount requiring bidding.**

It is our understanding that the City currently requires bids on all items in excess of \$1,500, except for professional services which are not required to be bid. This is a very low threshold. We recommend that the City review its policy and consider increasing the threshold.

**All journal entries should have supporting documentation.**

During our testing it was noted that documentation is not always attached to journal entries, although documentation was provided for any journal entry that was tested. In the event that something were to happen to the individuals making the entries, it would be difficult to determine exactly why the entries were made.

To increase controls we recommend that support documentation be attached to all journal entries. In addition, we recommend that a report of journal entries be made by each City employee be printed and reviewed by someone other than the employee making the entry.

**The accounts receivable subsidiary ledger for Water, Sewer and Trash billings should be periodically reconciled to a general ledger.**

During our audit we noted that the City did not reconcile the detailed utilities accounts receivable ledger to the General Ledger. By not performing this reconciliation, transactions or adjustments may be posted to the general ledger, but not the detailed accounts receivable ledger and vice versa. To increase the controls over the utility accounts receivable and cash receipts, the detailed accounts receivable ledger should be reconciled to the general ledger on a monthly basis and all billing adjustments approved by someone other than the person preparing the billings.

This report is intended solely for the information and use of management, the City of Council, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,



October 26, 2006